DEBT-FREE PROSPERITY

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What use is a Reformed Money System now?

The question is sometimes asked, especially by those who identify a reformed financial system too closely with a mere increase in the supply of money, "What use would such a reform be now that there is so much money about, so few goods and a risk of inflation?

BEFORE answering it is well to define what is meant by a reformed monetary system and the enlightened ideas on economic policy which should accompany it. It will, however, only be necessary to do so in outline, as many pamphlets or articles describe in simple, non-technical language the operation and serious defects of the existing system; the details of the changes which are required; and the methods by which such changes can be brought about.

Under a reformed system, the supply of money would be regulated by that which money is needed to buy, that is to say the country's output and import of real wealth in the form of desired goods and services.

Money For Use!

The creation and issue of money would be a public service, unconnected with the business of lending money for profit. Banks would continue to be the nation's accountants and they would also, as at present, create the nation's money-supply, but they would do this solely in the interests of consumers and producers. The general supervision and control of financial policy would be in the hands of expert permanent officials who had access to the facts and figures necessary for the proper carrying out of their work. These officials would be under no temptation to advise the issue either of too much or too little money. If too much were issued, their own incomes, as well as everyone else's, would be devaluated by inflation. If too little were issued, they would incur censure for keeping the country in a condition of needless poverty not justified by its capacity to produce and import goods.

All forms of revenue taxation, direct and indirect, would be done away with. The State, and possibly also the Local Authorities, would receive every year, new non-debt money, created by the banks, sufficient to make possible the carrying on of all Government and Local Government services and administration, and taxation would be employed to collect such percentage, and such percentage only, of the money thus issued as, if left in circulation, might cause an excess of money and produce inflation.

An example of the operation of this plan may be desirable, as the idea, though simple, is apt to puzzle people by reason of its novelty. Taking small and imaginary figures for convenience sake let us suppose that the country starts with £1,000 in money adequately backed by goods and services. Let us suppose that during the coming year the country's output and import of goods will increase by £500 worth; and let us also suppose that during the same period the State will require £1,000 to pay for its services—*i.e.*, £500 more than is covered by the increase in production. £1,000 of the new money will accordingly be created by

the banking system, not in the form of a loan, and during the period when it is being spent into circulation £500 of anti-inflation-taxation will be levied and the money cancelled out of existence and destroyed. At the end of the year, there will, as a result, be £1,500 in money backed by £1,500 worth of goods. No danger of inflation will have arisen, and the process can be repeated indefinitely. If we were to imagine that the country's output and import of goods increased by £1,000 worth during the period under review, no taxation at all would be necessary. If it did not increase at all, £1,000,instead of £500,of anti-inflation taxation would have to be levied. If it decreased by £50O worth of goods, £1,500 of anti-inflation taxation would have to be levied. Whatever happened, the financial situation would remain under perfect control.

Inflated Debt

The National Debt would be liquidated as rapidly as possible, and no new Government debt would be incurred. The National Debt started when the Government, needing more money than it could obtain by taxation, borrowed gold from a number of financiers who subsequently formed themselves into the Bank of England. Later the Government kept adding to the Debt by borrowing further sums of newly-created "cheque" money from the banking system, or money already in existence, from private individuals or organisations. The usual practice in these cases was, and is, to give the lenders some form of Government Securitv the interest on which is derived from taxation.

This interest on the National Debt now amounts to about £25,000 million and is steadily increasing. The whole arrangement, which could have been avoided if the Government had directed the banks to create, not in the form of a loan, the money it required and at the same time employed anti-inflation taxation, is highly objectionable for a number of reasons. Commercial banks within the wide limits set by their cash reserves, are allowed, merely by filling-in the cheques needed for making the purchase, to create new money for buying Government Securities, thereby imposing an unfair burden on tax-paying citizens who have to provide the interest. An element of absurdity enters into the arrangement since holders of Government Securities are also taxpayers and themselves, out of the taxes they pay, help to provide the money which the Government gives them as interest on their Securities. It has also been calculated that what may be termed the "small man investor" in the National Debt, has to pay in taxes four times as much money as he receives as interest on his holdings in order to provide the big investors with their interest.

In order to bring about the liquidation of the National Debt, the banks would be required to sell their holdings in the National Debt to the Government, which would pay them with new, non-debt money, and this money they would cancel out of existence and destroy. This action would be in accordance with existing banking practice, for just as new money is normally created when a bank purchases Securities, so is money normally destroyed when Securities are sold, the interest only being retained. An alternative plan would be to require the banks to keep notes behind the whole of their "cheque money" deposits. In order to obtain these notes (which would not be destroyed on receipt), they would be directed to sell their holdings of Government Securities to the State. Private

individuals, and organisations which had obtained their holdings in the National Debt with money obtained in a normal fashion, would be paid the full value of their holdings with newly-created non-debt money as rapidly as could be arranged without risk of inflation. They could then either re-invest the money in industry or they could spend it. If necessary, some special consideration in the form of an annuity could be arranged for elderly persons who had invested their savings in Government Securities and who might be exposed to hardship if some industrial investments should prove unremunerative.

Employment and Security

The fact would be recognised that in an age of labour-destroying inventions and discoveries, it is not, under anything approaching normal peace-time conditions, possible in a highly industrialised country permanently to provide paid work for everyone. Persons unemployed through no fault of their own would be paid adequate incomes with new non-debt money not obtained by taxing their fellow citizens and reducing the latter's standard of living to an unnecessary degree.

With regard to foreign trade, an effort would be made to come to an agreement with any countries willing to trade by barter or on an alternative sensible basis. The chief features of a "sensible" basis would be the fixing of the currency rates of exchange, if possible permanently; the prohibition of the buying and selling of currencies by private individuals and organisations; and an agreement whereby a creditor nation which had not seen fit, within a period of years to accept goods or services in payment of the debt owing it, would regard that debt as cancelled.

It is, incidentally, most important to avoid the common error of supposing that monetary reform cannot be put into successful operation by one country without general international agreement having been first secured. This error arises from the belief that, when Britain buys goods from abroad, in some way or other she pays for them with British money. Nothing of the kind, however, happens or can happen, even under the existing system. Payment for imports, if made at all, is always made, and must continue to be made, in goods and services, and our domestic monetary system need not affect the situation at all. Even when we read that "payment must be made in dollars", this does not really mean that we have to pay the U.S.A. in a kind of money which they alone have the right to create. It means that payment must be made directly or indirectly, in goods acceptable to America, which the latter will value in dollars.

Loans and Trade

In spite of the loss of a considerable amount of foreign investments and foreign trade as a result of the war, the assumption, general at the present time (1947) that we are suffering from an unavoidable shortage of goods is not as fully justified as many would have us believe. A not inconsiderable part of the shortage is due to the blunder of politicians in our own and other countries.

For example, by accepting the American Loan and its various restrictive conditions instead of developing our home and extensive Colonial resources, arranging barter trade agreements with various countries, and seeking temporary assistance from Empire sources, the Labour Government has made it impossible for us on more than one occasion to obtain very considerable aid from the Dominions.

Their acceptance of the dictation of the International Emergency Food Council has had a very similar effect. This irresponsible body, there is good reason to believe, serves the interests of Wall Street Finance and American Big Business to a greater extent than it distributes relief in a fair and reasonable manner among the needy nations of the world. On one occasion it actually advised that a large quantity of butter which New Zealand had specially reserved for the assistance of Great Britain, be sent to Canada in spite of the fact that Canada is actually an *exporter* of butter!

For the purpose, however of answering the question: "What good could a new financial system do now?" we will for the time being assume that the shortage theory is more or less correct.

A reformed monetary system would enable us to take full and immediate advantage of any increase in the output and import of goods, consumers being able to buy all that they desired of the increase, while producers would be encouraged by receiving a really adequate price. It should be hardly necessary to point out that the greater our present shortage of goods the necessity for giving every possible encouragement to any increase, no matter how small that increase may be.

Distribution and Gold

Even though the fact that we have delayed making the change until the eleventh hour may prevent us from reaping the quick and generous reward of a more timely change in the money system, it is essential that we should not delay issuing a bold challenge to Ideas which have caused untold damage in the past and which must make any really adequate post-war economic recovery impossible. During the pre-war period the so-called "orthodox" financial system was responsible for a poverty in the midst of potential abundance, which must never be allowed to recur. It often happened that in one part of the country people badly needed goods which those living in another part had the skill, materials and equipment to produce; yet the needs of the first group could not be satisfied simply because they had not enough money to pay a price which would cover the cost of production and allow a reasonable rate of profit. Socialist opinion to the contrary notwithstanding, this lack of purchasing power was commonly due to an actual shortage in the total money supply and not entirely to the maldistribution, or over-investment, of money.

This was particularly noticeable during the 1931 slump when in consequence to the retum to the Gold Standard the banks destroyed enormous quantities of "cheque" money. (The return to the Gold Standard meant that the supply of cheque money had to be reduced in order that it might be related to the limited amount of gold in the Bank of England and in order to bring about this reduction the banks called in loans, reduced overdrafts, and sold securities. All of these actions had the effect of destroying money for, when banks receive repayment of the principal of loans or sell securities they do not retain the money thus acquired, as a private individual would do, but cancel it out of existence.)

In addition to a widespread failure to produce desired goods for which labour and materials were available and in addition to frequent Government orders forbidding or limiting production, on many occasions goods already produced were burnt or thrown into the sea, not because people did not want them, but because they had not enough money to pay for them. Even at the

present time such destruction has not entirely ceased, for within the past few years both fruit and fish have been dumped into the sea because it was anticipated that an over-taxed people would not be able to buy them at a fair price, while useful articles and material no longer required for the services have been destroyed in order to prevent possible future unemployment in the industries making such articles or material. Needless slumps following trade booms are also a characteristic evil of the orthodox financial system and are due, partly to the fact that the latter does not allow money to be created for the direct financing of consumption; and partly to the fact that, for one reason or another, the banks decide to curtail the creation of money by loans for further production, a decision in no way related to any falling-off in the supply either of labour or of raw materials.

Another defect in the orthodox system associated with the practice of creating money solely to finance production (since production alone can be expected to yield a profit and make possible a payment of interest to the money-lender) is to be found in the fact that it is often impossible for people to buy all that they desire of the output of existing plant and machinery unless new money be created by bank loans to finance the construction of still further plant and machinery, even in cases where the increased output from the latter is neither needed nor desired, existing output being adequate!

Advantages of Reform

If Britain were to adopt a reformed financial system the effect of her example upon the rest of the world would be great and far-reaching and in more than one way ultimately beneficial to herself.

1. Immense encouragement would be given to the monetary reform movement in the United States, the Dominions and other countries with great natural resources and if the people of these countries obliged their governments to follow our example a great and rapid improvement in the standard of living and culture would result.

2. It nearly always happens that, either by reason of the inventive genius of some of her citizens or for some other cause, a civilized country has, for a time at any rate, a kind of "monopoly" in the production of certain articles and, if these are very attractive and desirable, the people of other countries may wish to obtain them and the higher their standard of living and culture the greater and more varied the demand is likely to be. This would mean that the improvement of the standard of living of wealthy countries would be likely to increase the demand for certain choice articles made chiefly, or solely, in Britain and this encouragement to our export trade would make it easier for us to obtain imports.

3. The substitution of the much simpler anti-inflation taxation for all forms of revenue taxation, would permit an immense saving in time, labour and administrative costs and enable a large number of persons to find occupation in a manner useful to the country. The pre-war revenue taxes, including all forms of indirect taxation such as Customs, Excise Dues, etc., were numerous and burdensome enough in all conscience, but since the war new taxes, such as Purchase Tax, have been added, which are of an even more complicated and vexatious character. Anti-inflation taxation would render unnecessary and indefensible all forms of what may be termed "penal" taxation which are apt to result in the

sacrifice of legitimate individual freedom, the destruction of well-managed estates, and in discouragement and loss of interest in business and other enterprises. In order to provide adequate incomes for weekly wage earners, it would no longer be necessary to rely solely, or mainly, on the taxation of other classes. Political or moral aims which are at present apt to be pursued by what may be termed financial "bullying", could be achieved by the far better method of direct legislation forbidding tyrannical and unjust practices employed by one group or class against another; while any restriction of imports which might be found necessary, could be secured by the operation of a quota system or, in the case of really objectionable imports, by total prohibition.

4. The steady elimination of the National Debt and an end to all Government borrowing would, like the substitution of anti-inflation taxation for revenue taxation, have the effect of releasing for productive work a large number of persons at present uselessly employed and put a stop to the misdirection of an immense amount of time and energy. The charging of interest on loans for housing, electricity development and public works also hinders and hampers all the time. It may be well to add that there is, of course, no reason why those for whom the reform entailed a need to seek fresh employment should not receive fair treatment and adequate consideration during the period when they were so engaged. This, too, is the answer to the dangerously significant objection which two American Senators recently made to the all-important use of atomic energy for industrial purposes. They said that all coal company stocks would prove worthless and insurance companies with railroad investments would go broke!

5. It is sometimes desirable to give the workers in a particular industry the encouragement of increased incomes. Under the present system this is usually secured by an increase in wages which normally has the effect of raising prices and leads to undesirable complications. Under a reformed system wages could remain unchanged, but the workers in the industry whom it was desired to encourage could receive, in addition to their wages, a grant from the annual creation of new, non-debt money. In this way the workers' incomes would be raised and they would be able to claim a larger share of goods and services, but, *as wage-costs would not have been affected*, there would be no increase in the price of the article they were engaged in making, either for the home consumer or, if it were exported, for the foreign buyer. Whether this grant of new not obtained from taxation would necessitate any increase in the anti-inflation tax would depend on the degree to which it was backed by an increase in the output and import of goods and services.

6. The value of a reformed financial system for the purpose of helping to prevent war is also very great indeed. In the past orthodox financial interests have, by their propaganda and in other ways, encouraged wars against countries whose stocks of gold they coveted, or whose unorthodox but enlightened methods of finance or trade they feared might ultimately spread to other lands and threaten their power and sources of gain. Loans of new money to armament firms have often brought great profit to banking interests and it is well known that armament firms have been exceedingly active in fomenting wars and the war spirit. War and war preparations are also one of the main safety-valves for the existing faulty financial system. Under this system whenever money distributed in the form of wages, salaries, interest or profit is invested in an extension of industry, as soon as that

extension itself starts turning out additional goods a shortage of consumer purchasing power is likely to result for the reason that, without great difficulties being incurred, an increased amount of goods cannot normally be sold with a fixed amount of money. The obvious remedy—that of creating new, non-debt money and putting it straight into consumers' pockets to enable them to buy the additional goods without reducing their demand for any others—is not permitted under the existing system, for money created to finance consumption and not production would bring the money-creating money-lenders no tribute of interest. Something, however, has to be done in order to avoid such widespread bad trade and unemployment as might bring the system into disrepute and one of the favourite stop-gap devices for dealing with the situation is a bank loan of new money made to an armament industry, either preparing for, or supplying, a war. Munitions of war are not, of course, "real wealth" coming on to the home market and supplying consumers' needs: they are in fact "given away" to the enemy in the form of bombs and high explosives dropped on his head. The new money, however, created by the bank loans financing war or war preparations, when paid out as wages, etc., to those employed in the armament industries, *helps lo clear the home market of consumer goods when it is added to the insufficient amount of money distributed by the ordinary industries*—insufficient, it will be remembered, by reason of the indirect results of investment.

7. The only serious war danger at the present time is provided by the too-often aggressive policy of Communist governments. Some of these governments, however, are clearly extremely nervous lest their citizens should discover that economic conditions in democratic countries where freedom still exists are not so bad as Communist propaganda has represented them to be. Anything therefore that can be done to make it more obvious to the citizens of Communist countries that a high standard of living and culture can be obtained without the sacrifice of the freedom of the individual is highly desirable. If, through the adoption of monetary reform, democratic states can make it obvious to the people of Communist countries that the lot of the working classes is economically, as well as in every other way far superior, is likely to oblige Communist governments from motives of self-interest to modify their harsh and arbitrary rule. If they should fail to do so they would run the risk of an internal revolution which would replace them by more reasonable successors. In either case the gain to world peace would be incalculable.

8. Another advantage of a reformed financial system as far as international relations are concerned is that it would enable a wealthy country to assist a poorer one, with frankness and generosity, and without involving the citizens of the wealthy country in any appreciable degree of sacrifice. Under the present system the usual plan is for the wealthy country to make a "loan" to the poorer one; that is to say the banks of the wealthy country create new money which is paid to the citizens of that country for producing goods which are exported to the poorer country. On the loan interest is charged, which means that the poorer country has to export to the wealthy country goods to the value of the interest demanded. Very often, however, the wealthy country takes good care to see that the poorer country is never allowed to export sufficient goods to pay off the principal of the loan. In consequence interest continues to be charged year after year until in time the total may even exceed

the principal or the loan, while the fact of the indebtedness often makes it possible for political interference in the policy of the poorer country to be exercised in a very unfair and undesirable manner. Under a reformed financial system the charging of interest could be omitted altogether. It will be remembered that investment is apt to cause a shortage of consumer purchasing power and that under the present system this shortage is often made good by creations of new money to finance the production of munitions of war. In a rather similar way new money could be created, not in the form of debt, to finance the production of goods by a wealthy country for the benefit of a poor one, and the government of the wealthy country would explain to its citizens that although such goods were a gift made as an act of international goodwill, the incomes paid to those producing them were useful for keeping the home market adequately supplied with consumer purchasing power.

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